

CHAPTER 4

ACCOUNTING FOR REVENUE

SCOPE

This chapter provides information on the laws, approved forms, reports, and procedures used in the accounting for revenue received by state agencies. Specific instructions and examples are given for the various types of revenue and deposit transactions. Other related transactions summarized include refunds of expenditure, refunds of revenue, returned checks, and debit/credit memos.

Note to units not on the ENCOMPASS system as of go-live date: Manual forms for these processes are available on the AOS website. Business processes are defined in this chapter.

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4.1 STATUTORY AUTHORITY

4.1.1 Daily Deposit Law

Indiana Code (IC) 5-13-6-1(b) states in part: “all public funds collected by state officers . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state, not later than the business day following the receipt of the funds . . . Deposits do not relieve any state officer from the duty of maintaining a cashbook under IC 5-13-5-1.”

IC 5-13-4-20 defines public funds as “all fees and funds of whatever kind or character coming into the possession of any public officer by virtue of that office.”

IC 5-13-6-1(f) states: “An office of: (1) the department of natural resources; or (2) the department of state revenue; that is detached from the main office of the department is not required to deposit funds on the business day following receipt if the funds on hand do not exceed one hundred dollars (\$100). However, the office must deposit the funds on hand not later than the business day following the day that the funds exceed one hundred dollars (\$100).”

4.1.2 Cash Book

IC 5-13-5-1 states: “ Every public officer who receives or distributes public funds shall: (1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and (2) balance the cashbook daily to show funds on hand at the close of each day. (b) The cashbook is a public record and is open to public inspection in accordance with IC 5-14-3.”

4.1.3 Bonding Authority

IC 5-4-1-15.1(a) states: “Whenever it is necessary, the appropriate administrative officer of any department or agency of the state may cover deputies or employees of the department or agency by individual bonds, or blanket bonds, or a crime insurance policy endorsed to cover the faithful performance of duties. The administrative officer shall determine the amount of the insurance policy, individual bond, or blanket bond obtained under this section.” Management should consider to the materiality of monies collected, susceptibility to theft, or other relevant factors when determining which employees should be bonded.

4.2 ACCOUNTING THEORY

Until such time as all agencies are required to fully utilize the Accounts Receivable Module, thereby recognizing all known revenues expected to be received by the state, our official recognition of revenues is on the cash basis. Revenues are recognized when received and deposited, either with the Treasurer of State or in an approved bank as allowed by law. This does not preclude any agency’s option to utilize the Accounts Receivable Module to the fullest extent.

4.3 INTERNAL CONTROLS

4.3.1 ENCOMPASS Roles

Separation of duties is critical to internal control for receipt, recording, and deposit of collections in any form. Care must be taken to assure that all monies received are deposited timely and in full and amounts recorded accurately. ENCOMPASS roles designed to provide this assurance are shown in flow charts at the end of this chapter. Those with workflow approvals are responsible for certifying the accuracy of all information on the document they are approving.

4.3.2 Basic internal control procedures for handling of receipts

- *Checks should be restrictively endorsed with an endorsement stamp, immediately upon receipt. This would occur upon opening the mail or otherwise receiving the instrument (check).*
- *Considering the materiality of collections and the size of the agency, a complete listing of collections received should be made by a person independent of the duties of processing the receipts or making deposits.*
- *All receipts, licenses or other accountable items must be prenumbered or sequentially numbered by computer when issued. Documents should be used in sequential order. If the volume warrants, a separate numeric series should be used for different revenue sources.*
- *Licenses, permits, goods for sale, invoices, etc., are considered accountable items for which a corresponding deposit must be made.*
- *Receipts should be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. Licenses, permits, etc., should be issued timely.*
- *Collections must be deposited intact. Deposits are to be made within the next business day in compliance with IC 5-13-6-1.*
- *Safeguard the collections through locked drawers, cabinets or safes, particularly during breaks, lunchtime, and overnight. Cash receipts books, licenses, etc., should be inaccessible to unauthorized persons.*
- *Collections and accountable items should be reconciled to the bank statements, agency's cash book, and/or Auditor of State's records. There is no authority for an agency to maintain an "over" or "short" fund.*
- *The duties of collecting monies, processing the receipt, license, permit, etc., preparing and making deposits, and performing reconciliations should be segregated to the fullest extent possible considering the size of the agency and the materiality of collections.*
- *Supporting documentation to support monies received must be maintained and made available for audit to provide supporting information for the validity and accountability of monies received.*

Documents must be filed in such a manner as to be readily accessible, or otherwise reasonably attainable, upon request during an audit

4.4 BUSINESS PROCESSES

4.4.1 Accountability for Collections

4.4.1.1 Receipts

Some type of receipting method must be utilized for all money received. If the volume is not extremely high, the simplest and most effective method is to issue an official receipt (either prescribed or approved by the State Board of Accounts) to each person paying in money to the state agency.

For a greater volume of collections, the State Board of Accounts may approve a substitute method of accounting for the revenue -- cash registers, the validating of documents, the use of data processing cash listings, etc. Any system other than the issuance of prescribed cash receipt forms must have State Board of Accounts approval.

Official receipts should be consecutively pre-numbered, whether paper or electronic. If a paper form, the agency clerk must complete in ink the date, entity or person submitting payment, description, and indication of the form of payment. Official receipt forms have three copies, the original for the payer, the second copy to be retained with the agency's ROC, and the third copy to remain intact in the receipt book.

All three copies of a **voided** receipt must remain intact in the receipt book. These may be stapled together. All copies must be defaced. If an electronic receipt system is used, voided receipt numbers must not be used for subsequent receipts.

Regardless of the receipting method, the agency should always be able to trace an individual receipt from a payer to the corresponding Report of Collection. In the event of a lost deposit by the bank or carriers, it will be the agency's responsibility to contact the payers and recreate the deposit.

All checks should be restrictively endorsed by the first agency employee receiving the checks.

4.4.1.2 Cash Receipts Journal (cash book)

If money is received on a regular basis, some type of cash book (paper or electronic) is required (See 7.1.2). This cash book must list the revenue by classification and amount in detail. Noting cash and checks on separate lines is helpful for reconciliation to the final Report of Collection. The cash book may include the receipt number or daily summaries from a source document or data processing listing. The amount deposited with the Treasurer of State and the corresponding ENCOMPASS Deposit ID must also be shown on the cash book. The process of issuing a receipt and posting the cash receipts journal can be incorporated into one function.

Since there is no standard cash book (also referred to as a cash receipts journal) prescribed for state agencies, all types of internal cash books or journals must be approved in writing by the State Board of Accounts. An example of a Cash Book is included in the Appendices of this chapter, 7.5.2.

4.4.1.3 Reconciliation Procedures

Reconcile deposits with the cash receipts journal (cash book) to assure that all funds received were deposited. It is recommended that this be reconciled daily as approved ROCs are returned to the agency.

4.4.2 Deposits With Treasurer Of State

The Treasurer of State (TOS) is the receiver and custodian of all state revenue. All state departments and agencies must make deposits to the TOS or submit records of deposits made to the credit of the treasury in an approved depository. State agencies shall not maintain funds outside of the ENCOMPASS accounting system without specific statutory authority. In addition to cash and checks, monies received includes, but is not limited to, bank deposit receipts for money deposited to an outside bank account, bank credit memoranda, wire transfer receipts for letters of credit, and ACH totals.

4.4.2.1 Report of Collections

Prior to making a deposit with the TOS, an agency staff member must enter certain financial deposit information into the ENCOMPASS system and print a Report of Collection (ROC). Each deposit, and the related ROC, will be assigned a separate deposit ID number by ENCOMPASS. For internal control purposes, except for an optional "total" entry made by the initial receiver of cash in the agency, only one user is permitted for each deposit ID. Within these parameters, transactions can be summarized or detailed, depending upon the agency's individual requirements. If details of individual transactions are maintained in a system outside of ENCOMPASS, totals only could be included on the ROC; however, the practice of including detail on the system is encouraged. Deposits related to "open items" (previously recorded in AR) can be included in the same deposit as collections not previously identified.

When all entries are completed, the deposit will remain in a "pending" status until approved by TOS. Unidentified checks (checks for which the revenue source cannot easily be identified) should be deposited along with other receipts; these unidentified amounts will remain in a Cash Control Account (see 7.4.3) until the type of receipt can be identified by the agency and applicable accounting information entered into ENCOMPASS.

When a ROC is completed and saved as pending, print two (2) copies to take to the TOS for deposit. The TOS will initial and date one copy for the agency's records and for reconciliation to the "cash book" record.

4.4.2.1.1 Forms of Deposits Reported on a ROC

- **CASH** - The total dollar amount of all U.S. Treasury bills and coins included in the deposit
- **CHECKS** - The total dollar amount of all checks included with the report of collections.
- **DEPOSITS IN BANK** -- The total amount of all bank deposits made to the credit of the TOS in outside banks, with evidence of deposit included with the ROC. Agencies depositing directly into approved bank accounts outside the TOS must enter their agency number (and circle it) in the upper left hand corner of all bank deposit slips prior to making deposits at the bank. This will allow the TOS to contact the agency if they discover a deposit that does not correspond to an ENCOMPASS generated ROC. After making the deposit in the bank, the agency must forward an ENCOMPASS ROC and bank receipt of deposit to the TOS not later than the next business day following receipt of funds. Upon verification, the TOS will enter into the ENCOMPASS system a deposit identifier number from their independent system. Once approved, a deposited amount cannot be modified in that particular ENCOMPASS deposit ID.
- **WIRE TRANSFERS, ACH, EFT** - Each electronic fund transfer transaction requires a separate ROC, with the total amount (and type) of the wire transfer documented on the ROC. If wire, EFT or ACH transfers are made to the TOS bank accounts on behalf of the agency, the agency should follow the same procedures as in the previous paragraph. The TOS will verify the ROC amount to the bank transfer information prior to entering the deposit identifier number and approving the deposit in the ENCOMPASS system. If, after a 30 day holding period of the ROC, no evidence of actual deposit exists, the TOS will "Deny" the ROC in the system and notify the agency.
- **LOCKBOX** - The total amount of all lockbox account deposits included on the ROC. This information may be entered through an interface with bank provided information or manual entry.
- **TOTAL** – The Grand Total on the ROC must equal the total of all deposits submitted with the ROC.

4.4.2.1.2 **Calculator Tape for Checks**

Prepare a calculator tape directly from the "face" of the checks in the deposit, verifying that the total amount agrees with the total as calculated on the ROC. Large numbers of checks for the same amount should be grouped and the group total only added in the tape with a note on the tape margin describing the group. For example: 200 @ \$10.00 describing a group total of \$2,000; 185 @ \$5.00 describing a group total of \$925.00. Money orders should be grouped separately to aid in tracking and accounting for the deposit. Make each tape at least three inches long and fasten with a paper clip or rubber band (if a large bundle).

4.4.2.2 **TOS Deposit Approval**

Upon receiving the deposit, while the agency courier is waiting, the office of the TOS will verify that the amount of the cash, checks, deposit slips or other evidence of receipt are the exact amounts as shown on the ROC and in the ENCOMPASS system. If verified, the TOS will enter into the ENCOMPASS system a deposit identifier number from their independent system and select "Approved". The TOS agent will initial and date the agency copy of the ROC for the agency records. If the deposit is not verified, the TOS will select "Deny" and give the ROC and a signed receipt for the cash/checks to the depositor to return to the agency for correction.

Once approved, a deposited amount cannot be modified in the particular deposit ID. A sequential document number and transaction date will be stamped onto the ROC form (TOS copy) in the top right section of the form labeled "For Treasurer Use Only".

Note: The TOS deposit window closes at 3:00 p.m. each workday.

4.4.2.3 *Discovery of Errors on Deposit after Approval by TOS*

The TOS reconciles cash received to entries made on their separate legacy system at the end of each day. If an agency error is discovered on a deposit (unreconciled item), the AOS financial department will be notified. After the AOS and the agency contact determine the reason for the error, the agency will generate a Journal Entry (JE) to be approved by AOS and posted directly to the General Ledger. This adjusting entry should reference the original ROC containing the error. It is imperative that an agency devote immediate attention to the resolution of an error in the report of collections in order to facilitate the daily balancing of processed collections between the Treasurer of State and the Auditor of State.

4.4.3 *Accounting Information Entry*

Fund and account details can be completed after the TOS has entered an identifier number and approved the deposit. Any monies deposited, but not yet identified to funds and accounts, will be held in a Cash Control account. This information should be completed as soon as possible after making a deposit with the TOS.

As noted in 7.4.2.1, unidentified checks should be deposited along with other receipts; these unidentified amounts will remain in the Cash Control Account until the type of receipt can be identified by the agency and applicable accounting information entered into ENCOMPASS. As amounts are identified and accounted for, they should be marked as "complete" in order that they will be included in the overnight automatic posting by the system. It is critical that this information on all deposits be entered timely, preferably within one business day of making the deposit. Agency supervisor approval is required for all accounting entries.

At the end of each week, determine if any amounts are still in the Cash Control account due to accounting information not completed and complete these transactions as soon as possible.

4.4.4 *Agency Specific Processes*

4.4.4.1 *Temporary outside Deposit Accounts*

Agencies located outside of the downtown Indianapolis area may be depositing daily in local banks as a temporary measure for convenience. Agencies using such accounts shall submit, at least

monthly, an ENCOMPASS generated ROC with a check attached equal to the total and payable to the Treasurer of State. The proper preparation of the ROC must include the date the monies were received at the agency office in the description section. A cash receipts journal should be maintained at the agency for referencing the supporting revenue source documentation to the bank deposit and to the ROC. Entry of the check number which transmitted the collections to the Treasurer should also be recorded.

4.4.4.2 Lockbox Systems

Lockbox systems are an efficient means of processing high-volume, repeating types of revenue transactions. The revenue, which generally involves agency issuance of statements of amounts due, is mailed directly to the financial institution by the payer. Data entry is performed by the bank using scanning devices to record information such as date, amount, and payer. According to parameters established by the bank and the unit, the bank may reject transactions with incomplete or incorrect information. Within one business day, the bank has recorded the deposit to the treasury account and performed the data entry. The bank then forwards to the agency a lockbox notice of deposit, the processed documents, a report listing a count of items processed and total amount entered and rejected documents with checks attached.

The lockbox revenue must be entered into the agency accounting records, which would involve classifying transactions and posting the batch totals to the cash receipts journal. The agency is responsible for reviewing the processed documents.

After processing the ROC through ENCOMPASS, the ROC and attached notice of deposit form issued by the bank is submitted to the TOS as described in 7.4.2.

The lockbox bank accounts are established in the name of the treasury and monitored by the Treasurer of State, with bank account statements delivered to the Treasurer. The TOS must approve all such accounts.

4.4.4.3 Electronic Funds Transfer

The most common source of electronic fund transfer is a federal grant. An electronic funds transfer may be received through a wire transfer, EFT, or through an automated clearing house (ACH) transaction.

Each electronic funds transfer transaction must be listed on a separate ROC and may not be combined with other agency receipts. It is important that the ROC for an electronic funds transfer be processed as described in 7.4.2.1.1. Upon initiation of the transfer, the ROC should be immediately delivered to the Treasurer of State's office. Upon notification from the bank that the funds have been received, the Treasurer of State will process the report of collections as in 7.4.2.2.

For additional information in obtaining and drawing federal funds, see Chapter 10, Accounting for Federal Funds.

4.4.5 Accounting for Other Receipts

4.4.5.1 Refunds of Expenditure

If collection of an overpayment or a rebate is received, the receipt is considered a refund of expenditure. Refunds of expenditure include: collections of overpayments made to a vendor or contractor, payment received from the vendor for credit for defective or returned items, a rebate or other discount remitted by the vendor.

Refunds of expenditure may also be collections which offset an additional agency expense which had been unanticipated by the agency's budget. An example of the latter situation is a receipt for the cost of producing and distributing certain public information requested. As with any other deposit of funds, the ROC form is used to report the refund of expenditures in the same manner as other receipts.

4.4.5.1.1 Recording Refunds of Expenditure

For control 3 and 5 funds, a refund of expenditure can only be recorded as such if the original disbursement and the refund/collection are within the same fiscal year. For control 4 funds, a refund of expenditure can be recorded as such if the original disbursement and the refund/collection are within the budgeted biennium. In each case, the accounting entry would be a reduction of the expenditure account (-) originally charged.

If the refund/collection is not received within the same fiscal year (ending June 30) for a control 3, 4 or 5 fund, or biennium if a control 4 fund, as the related expenditure, the collection must be recorded as a Prior Year Adjustment to Revenue (400400) in order to prevent increasing current year's appropriations. If the fund has a control code of 6 or 7, allowing for appropriation increases, record as a refund of expenditure.

If the original expenditure was charged to a federal grant program (control 7), either directly or indirectly, be sure to reduce the corresponding expense charged to the federal grant in the ENCOMPASS projects module.

4.4.5.2 Refunds of Revenue

Although a refund of revenue is actually a process for paying monies out, a discussion is included in this chapter due to the relationship of such disbursements to money previously deposited and recorded on a ROC. The refund may occur due to an overpayment made or the agency's rejection of a transaction.

4.4.5.2.1 Recording Refunds of Revenue

When entering the refund in the ENCOMPASS AP voucher process, the transaction should reference the original deposit and document the calculation of the overpayment or other reason for refund. The reference to the original deposit should include the Deposit ID and date. A debit (+) to the

original account (4xxxxx) which was credited (-) to record the original receipt is the proper accounting entry.

4.4.5.3 Accounting for Returned Checks from Outside Parties

When a check previously deposited by a ROC is returned to the Treasurer of State because of insufficient funds in the payor's account, the agency which receives the check must take necessary action to collect the amount due. The Treasurer's office will process to the ENCOMPASS general ledger (GL) a journal entry (JE) for the amount of insufficient funds. The transaction is recorded to the fund designated by the agency for use in such circumstance. A specific revenue account (401100) has been established to record the returned check transactions. .

When an agency collects on a returned check, the agency submits the collection together with a new ROC. The accounting entry specified must be recorded to the same fund which was used by the Treasurer to charge the agency for the returned check, also using account 401100, thus recording the appropriate offset for the transaction.

4.4.6 Bank Debit/Credit Memos

Occasionally, the bank may discover an error in a deposit. In this case, the bank will issue either a debit or credit memo to document the decrease or increase, respectively, to the TOS account to correct the error.

4.4.6.1 Accounting for Bank Debits/Credits

Debit/credit memos returned to the TOS by the banks, along with backup documentation, are forwarded to the agency. Agency staff must then review these items and process the correcting accounting entry to the ENCOMPASS system. This debit/credit should be applied to the original transaction chartfields in the general ledger (GL) and referred to the original deposit ID in the AR module by use of the description line. Entries made in this fashion will be subject to review by the AOS financial division prior to final posting to the general ledger.

4.5 APPENDICES

4.5.1 Revenue Accounts

All account codes are six digit numbers which classify the accounting transactions. The first digit of all revenue objects is the number "4", followed by a digit which signifies the following major categories of revenue:

40=Adjustments, such as prior period adjustments to revenue

41=Non-exchange revenues, such as taxes, for which no direct exchange is given for monies received

42,43=Exchange revenues, such as fees, licenses, rental and sales revenues

44=Grant revenue

45=Fines and penalties

46=Forfeiture, abandoned property, donations

47=Other revenue, such as retirement fund contributions, lottery distributions, etc.

The last four digits represent the specific type of transaction.

4.5.2 Cash book example

This example is from ENCOMPASS training; it contains columns for User 2 to initial for the receipt of funds from User 1 and columns for entering the ENCOMPASS Deposit ID and reconciliation to actual deposit (ROC) by User 1.

State of Indiana Form

AUDITOR OF STATE
AOS Project/Encompass
ENTAP

Indiana Government Center
Old Trails Building
Indianapolis, IN 46204
(317) 234 - 4927

CASH BOOK

For Agency: _____

| DATE | Collection Amount | Transaction Description | Funds Received By: Agency User 1 | Funds Received By: Agency User 2 | Deposit ID | Deposit ID Verified By: Agency User 1 |
|------|-------------------|-------------------------|----------------------------------|----------------------------------|------------|---------------------------------------|
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